SUMMARY OF LEGISLATIVELY PASSED SINGLE BUSINESS TAX REDUCTION

Prepared by the Senate Fiscal Agency

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Legislatively Passed Single Business Tax Reduction

This package of bills would provide single business tax reductions primarily to industrial manufacturing businesses, but also to high-technology firms and some multistate businesses. These proposed tax reductions would be provided through two new personal property tax credits and a change in the apportionment factor. In addition, this package of bills would extend a current tax break designed to help large spin-off companies such as Delphi and Visteon. Collectively, these bills would reduce single business tax revenue by an estimated $618.6 million over the next five years. Each of these bills is described below and the bills' estimated fiscal impacts, by year, also are presented. Except for Senate Bill 634, which would change the apportionment factor, all of these bills are tie-barred together.

15.0% Industrial Personal Property Tax Credit: Senate Bill 909, House Bill 4982, House Bill 5460, and House Bill 5461

These bills would create a new single business tax credit equal to 15.0% of the property taxes paid on industrial personal property. The credit would be available for property taxes paid in 2006 as long as they were levied after December 31, 2005 (H.B. 4982), and for property taxes paid in 2007 (S.B. 909), 2008 (H.B. 5461), and 2009 (H.B. 5460). The credit would not be available after 2009, because under current law, the single business tax expires January 1, 2010. This credit would be refundable, which means that not only would it reduce a business's single business tax liability, but if the credit were to exceed a business's tax liability, the difference would be refunded to the taxpayer or, if a business had no single business tax liability, the entire amount of the credit would be refunded to the business.

Transferred Jobs Personal Property Tax Credit: Senate Bill 910 and House Bill 5459

Senate Bill 910 would create a new credit against the single business tax equal to 100% of the personal property taxes paid on personal property new to Michigan used directly by workers transferred to Michigan from other states or countries. This credit could be claimed only during the first year that the taxpayer paid property taxes on the personal property being used by the transferred workers and would be available only for taxes paid in 2007 or 2008; however, under House Bill 5459, a business could claim this credit in 2009 if it reached an agreement with Michigan Economic Development Corporation. If the transferred jobs were not maintained for three years, then the taxpayer would have to repay at least a portion of the original tax credit as follows: 1) If the jobs were not maintained during the first year following the year the credit was claimed, then 100% of the credit would be lost; 2) if the jobs were maintained during the first year but not during the second year, then 67.0% of the credit would be lost; and 3) if the jobs were maintained during the first two years following the year the credit was claimed but not during the third year, 33.0% of the credit would be lost. This credit would apply to jobs and personal property directly being used for high-technology and manufacturing activity and could be used only to offset a business's single business tax liability (not a refundable credit).

Apportionment Factor – Increasing Weight of Sales: Senate Bill 634

Under current law, the apportionment factor, which is used to calculate an interstate business's activity in Michigan, is the weighted average of the business's percentage share of sales, property, and payroll in Michigan compared with the business's total activity. The sales factor is weighted at 90.0% and property and payroll each are weighted at 5.0%. This bill would increase the weight on the sales component of the apportionment factor as follows: 1) Effective January 1, 2006, the sales weight would increase to 92.5% and the weights on property and payroll each would decrease to 3.75%, and 2) effective January 1, 2008, the sales weight would increase to 95.0% and the weights on property and payroll each would decline to 2.5%. Increasing the weight of the sales factor would help reduce the tax burden for multistate businesses that are based in Michigan because their percentage share of sales in Michigan tends to be smaller than their percentage shares of property and payroll in Michigan. On the other hand, this change would tend to increase the single business tax liability for multistate businesses based outside of Michigan because their percentage share of sales in Michigan tends to be higher than their percentage shares of property and payroll in Michigan.

Extending Current Delphi/Visteon Special Tax Break: Senate Bill 203

This bill would extend a special tax break originally enacted in 1999 that is designed to reduce the single business tax liability for large spin-off companies such as Delphi and Visteon. Under current law, when calculating the sales portion of their apportionment factor, a spin-off company may exclude sales it makes to a company that was originally part of the combined or consolidated business group before the spin-off restructuring. This creates a smaller sales factor, which reduces the company's Michigan tax base and its single business tax liability. Under current law, a qualifying firm may use this special sales factor calculation for an initial five years, as long as the company makes at least $500.0 million in new capital investment in Michigan during those five years. This special tax provision is then available to the qualifying business for another two years, but another $200.0 million in new capital investment must be made.

This bill would modify the special sales factor calculation, extend the duration of this special tax provision, and establish new investment requirements. Beginning in 2006 for companies that filed for bankruptcy in 2005 (Delphi) and beginning in 2007 for other qualifying companies (Visteon), the special sales factor would apply only to sales from their plants located in Michigan. In addition, this special tax provision would be extended for an additional four years, to a total of 11 years, as long as a qualifying business carries out one of the following three investment scenarios: 1) invests another $200.0 million in new capital equipment in Michigan and maintains at least 80.0% of the full-time equivalent jobs it has in Michigan at the beginning of the new four-year period; 2) invests an additional $400.0 million in new capital in Michigan during the new four-year period; or 3) invests a total of $1.3 billion in Michigan during the entire 11-year period following the spin-off restructuring. In addition, if a qualifying company sells a plant in Michigan, this special tax treatment would be available under the same conditions and timing to the new owners. This bill also includes provisions that would require a business to file amended tax returns and subsequently repay the tax breaks claimed during the period from year eight through year 11 of this overall agreement if it were determined that the business did not comply with the investment requirements.

Fiscal Impact

The following table summarizes the estimated fiscal impact of these bills. The proposed new 15.0% personal property tax credit would reduce single business tax revenue an estimated $499.3 million from fiscal year (FY) 2005-06 through FY 2009-10. The 100% credit on personal property taxes paid on new personal property being used by workers transferred to Michigan would reduce single business tax revenue an estimated $50.0 million. Increasing the weight on the sales portion of the apportionment factor would result in a net reduction in single business tax revenue equal to an estimated $69.3 million over the next five years. All of this loss in revenue would have an impact the General Fund/General Purpose budget and would not have any direct impact on local governments. It is not known how much the existing tax break provided to large spin-off companies is currently reducing single business tax revenue, so it is not possible to make a reasonable estimate of the potential impact of extending this credit as proposed by Senate Bill 203.

Legislatively Passed Business Tax Relief Package: Estimated Fiscal Impact (Millions of Dollars)						
Proposed New SBT Tax Credits	**FY 2005-06**	**FY 2006-07**	**FY 2007-08**	**FY 2008-09**	**FY 2009-10**	**Total**
Industrial Personal Property Tax 15.0% Credit [1)]	($50.0)	($120.0)	($124.8)	($129.7)	($74.8)	($499.3)
Transferred Jobs Personal Property Tax 100% Credit [2)]	0.0	(20.0)	(20.0)	(10.0)	0.0	(50.0)
Increased Sales Apportionment Factor[3)]	(8.0)	(11.0)	(20.1)	(24.0)	(6.2)	(69.3)
Total	**($58.0)**	**($151.0)**	**($164.9)**	**($163.7)**	**($81.1)**	**($618.6)**

[1)] S.B. 909 and H.B.s 4982, 5460, and 5461
[2)] S.B. 910 and H.B. 5459
[3)] S.B. 634